

Message Text

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46

ACTION EB-11

INFO OCT-01 ARA-11 ADP-00 CAB-09 CIAE-00 COME-00 DODE-00

INR-09 NSAE-00 RSC-01 FAA-00 L-03 TRSE-00 H-02 PA-03

USIA-12 PRS-01 RSR-01 /064 W
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R 191308 Z MAR 73

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 3759

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E. O. 11652: N/ A

TAGS: EFIN, ETRN, CI

SUBJ: CIVIAR: BRANIFF EXCHANGE PROBLEM

SUMMARY: BRANIFF IS INCREASINGLY CONCERNED ABOUT UNREALISTIC RATE OF EXCHANGE AT WHICH IT MUST CONVERT DOLLARS TO PAY LOCAL COSTS. LOCAL BRANIFF REQ HAS REQUESTED AMBASSADOR'S HELP TO GET SUBJECT INCLUDED IN UPCOMING USG/ GOC BILATERAL. AMBASSADOR PROMISED TO PASS ALONG REQUEST BUT EXPRESSED DOUBT ISSUE WOULD BE INCLUDED IN NEXT BILATERAL ROUND. END SUMMARY.

1. WE HAVE RECENTLY HAD SEVERAL DISCUSSIONS WITH LOCAL BRANIFF OFFICIALS ABOUT INCREASING SQUEEZE BEING PUT ON BRANIFF (AND ALL OTHER INTERNATIONAL CARRIRS) BY CENTRAL BANK REFUSAL TO ALTER RATE AT WHICH BRANIFF IS REQUIRED TO EXCHANGE DOLLARS FOR ESCUDOS TO COVER LOCAL COSTS. AS EXPLAINED BY BRANIFF OFFICIALS, THIS RATE HAS REMAINED CONSTANT AT 30 ESCUDOS PER DOLLAR SINCE AUGUST 2, 1972, WHILE LOCAL COSTS HAVE RISEN PRECIPITOUSLY. EFFECT HAS BEEN THAT INCREASINGLY LARGER SHARE OF REVENUES MUST BE USED TO COVER LOCAL COSTS, LEAVING LITTLE FOR DOLLAR COSTS AND PROFITS. IN DECEMBER, FOR EXAMPLE, BRANIFF SPENT ESTIMATED 90 PERCENT OF THAT MONTH'S REVENUES TO COVER LOCAL COSTS, COMPARED TO 21 PERCENT IN 1967, 33 PERCENT IN 1971 AND 44 PERCENT FOR THE FIRST 10 MONTHS OF 1972.

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2. ON FEBRUARY 2, ECON COUNSELOR TOOK MATTER UP WITH CENTRAL BANK VICE PRESIDENT FAZIO. FAZIO SAID CENTRAL BANK STUDYING MATTER AND THAT " SOLUTION" WOULD BE FORTH-COMING IN MARCH. ON MARCH 13 FAZIO ANNOUNCED TO INTERNATIONAL CARRIERS THAT BANK HAD DECIDED NOT REPEAT NOT TO CHANGE RATE. HE REPORTEDLY TOLD THEM THAT DESPITE UN-CHANGED RATE THEY WERE STILL MAKING PROFITS AND FROM THEIR CHILEAN OPERATIONS, AND SAID THAT IF THEY WANTED TO CONTINUE, THEY SHOULD CEASE PRESSURING GOC TO CHANGE RATE. HE SUGGESTED ON PERSONAL BASIS THAT IF THEY ARE STILL CONCERNED WITH HIGH COSTS, THEY INVESTIGATE POSSIBILITY OF DECREASING FREQUENCIES.

3. ON MARCH 14 BRANIFF VICE PRESIDENT FOR CHILE, CARLOS BRUNSON, CALLED AMBASSADOR TO EXPRESS BRANIFF' S CONCERN OVER THIS MATTER AND ASKED AMBASSADOR, S ASSISTANCE IN HAVING SUBJECT INCLUDED ON AGENDA OF UPCOMING USG/ GOC BILATERAL TALKS. AMBASSADOR SAID HE WOULD PASS ON REQUEST BUT EXPRESSED DOUBT THAT THIS KIND OF ISSUE WOULD BE INCLUDED AT THIS STAGE OF BILATERALS. AMBASSADOR OFFERED, HOWEVER, TO RAISE MATTER WITH ACTING HEAD OF FOREIGN MINISTRY QUINTEROS DURING THEIR APPOINTMENT MARCH 16 TO DISCUSS PROPOSED AGREEMENT RECIPROCALLY EXEMPTING BRANIFF AND LAN FROM US AND CHILEAN INCOME TAXES.

4. AMBASSADOR SUBSEQUENTLY RAISED MATTER WITH QUINTEROS, WHO SAID HE UNAWARE OF CENTRAL BANK DECISION NOT TO ADJUST RATE. QUINTEROS NOTED OSH CONCERN AND PROMISED TO LOOK INTO MATTER.
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*** Current Classification *** LIMITED OFFICIAL USE

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